

China's macro-economy & labor market in recent years

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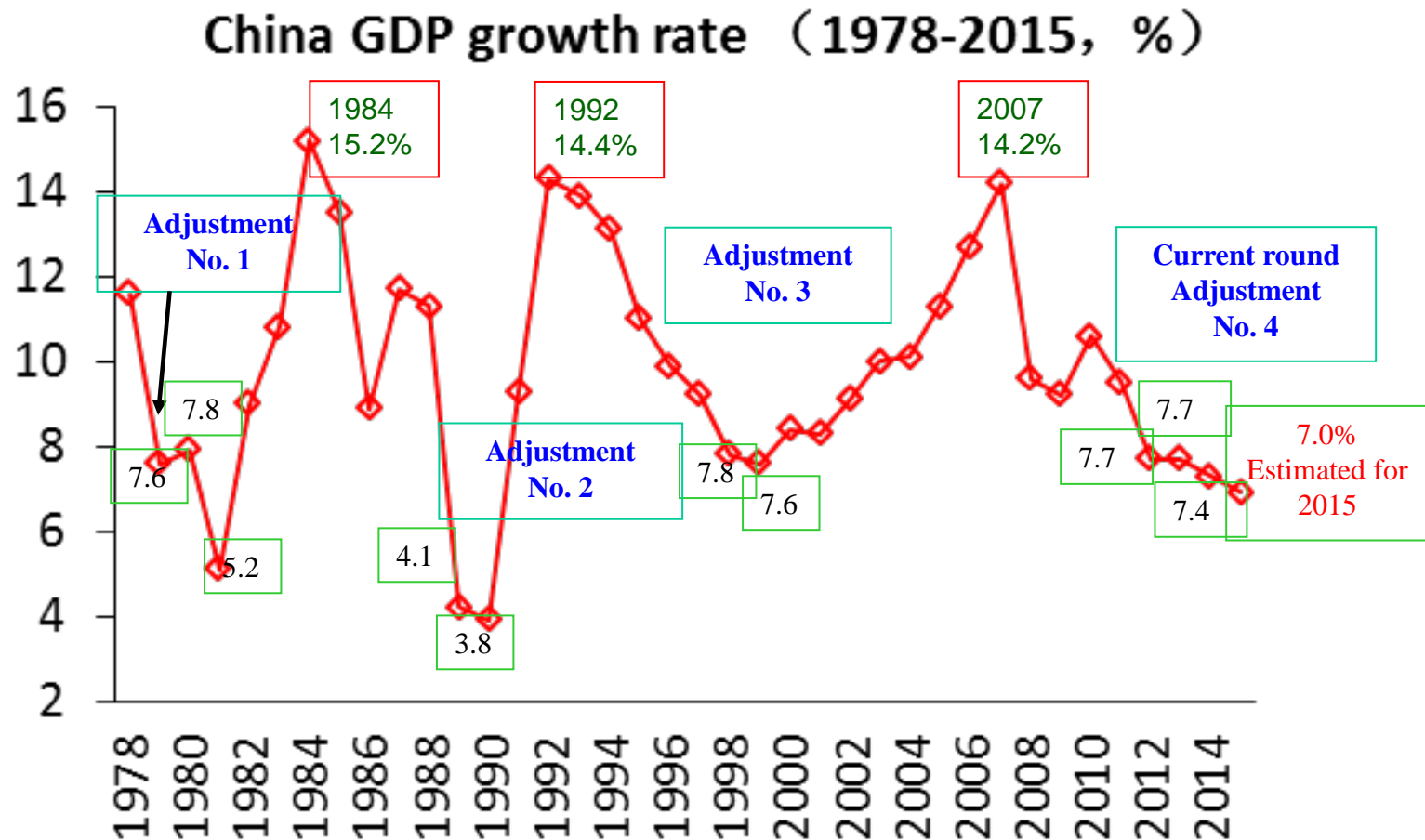
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Setting for observation

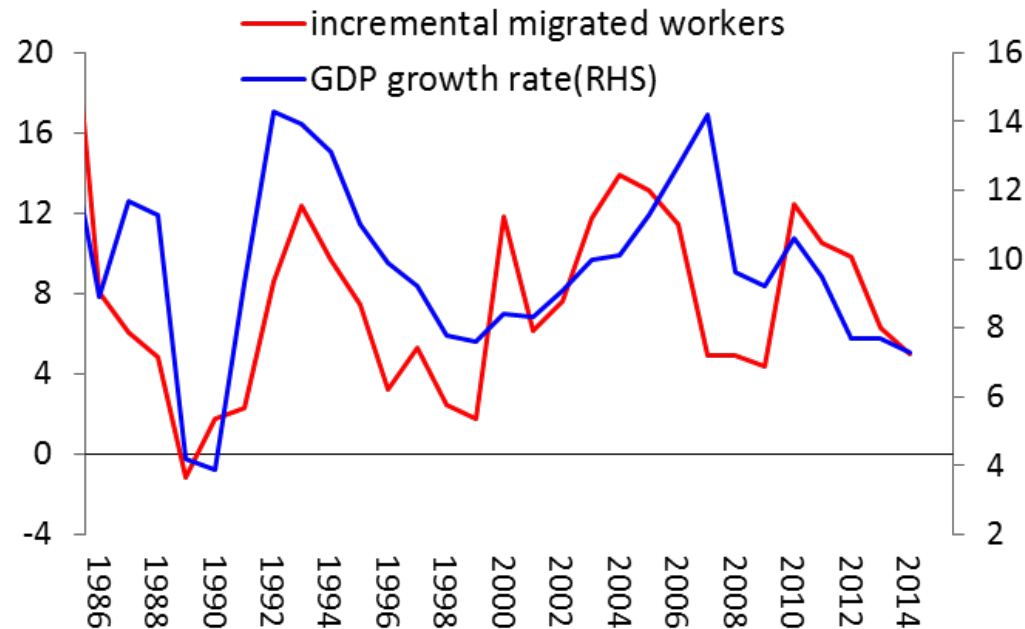
- China's economy has experienced 4 downward adjustments in the post-reform era, and is now at the trough of dual adjustments in its cyclical and structural transformation.



Okun relationship in China?

- Since China is undergoing rapid growth of creation of non-farming jobs through migration of rural labor, changes of migrated workers, rather than the unemployment rates, are more responsive to a macro cyclical changes.
- The augmented Okun model may be designed with two variables of unemployment rates and growth of migrated workers, capturing effects of macro-cyclical changes on labor market.

Growth of migrated workers and GDP growth rate in China (1986-2014, million, %)



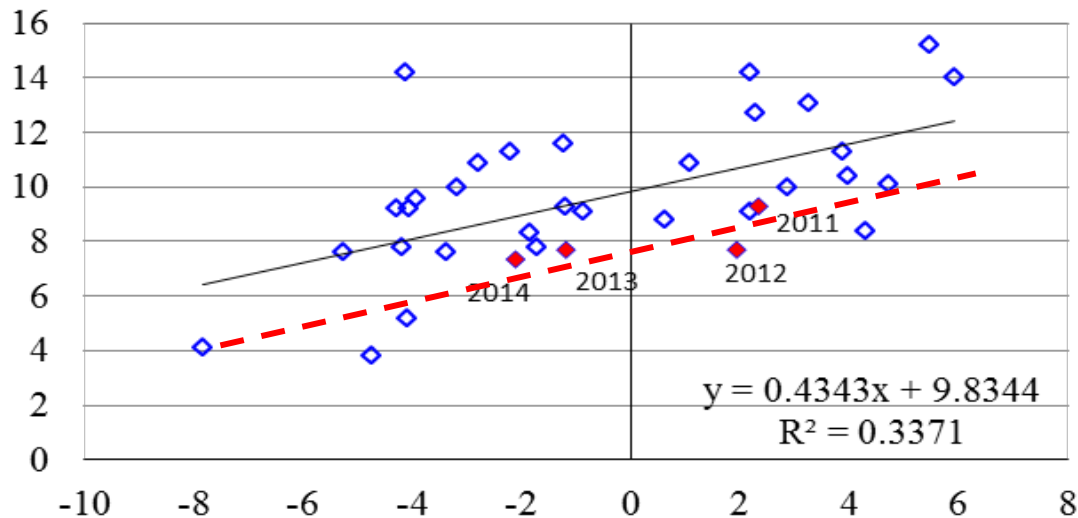
Empirical Okun relationship in China

- In the estimated model using China's data, changes of migrated workers are highly significant while unemployment rates are insignificant.
- The estimated results enable us to observe the empirical Okun relationship for China linking economic growth and incremental migrated workers.
- The results highlight two points.....

Empirical Okun relationship in China

- (1) Labor market did respond to macro-changes, reflected by the positive slope of the Okun curve for China.
- (2) China's potential growth rate may have fallen to less than 8% from the previous 2 digit figures, reflected by downward shift of the Okun curve.

Deviation of migrated workers from its trend
(horizontal) and GDP growth rate in China
(新增农民工对趋势偏离[横轴]与GDP增长率)
(1979-2014, %)

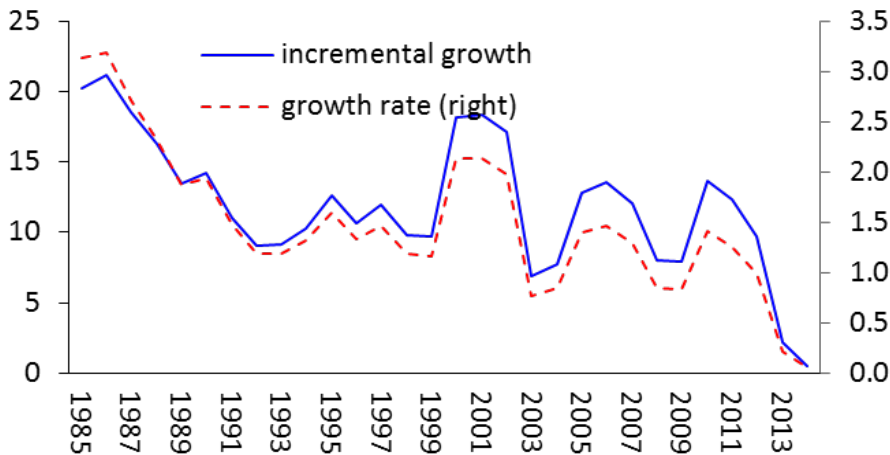


Broad situation in China's labor market:

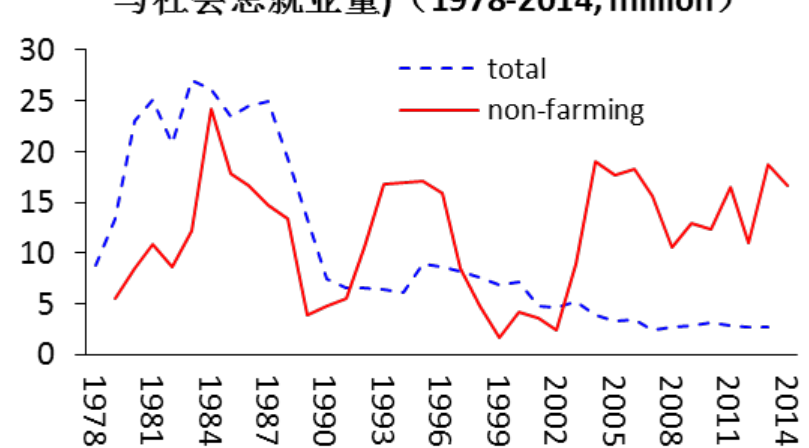
Total and structural changes in employment

- Growth of total employment has been diminishing due to demographic changes. but the number of non-farming jobs are still growing quickly.

Incremental growth and growth rate of working age population in China (中国劳动适龄人口增量与增速) (1982-2014, million, %, 3YMA)

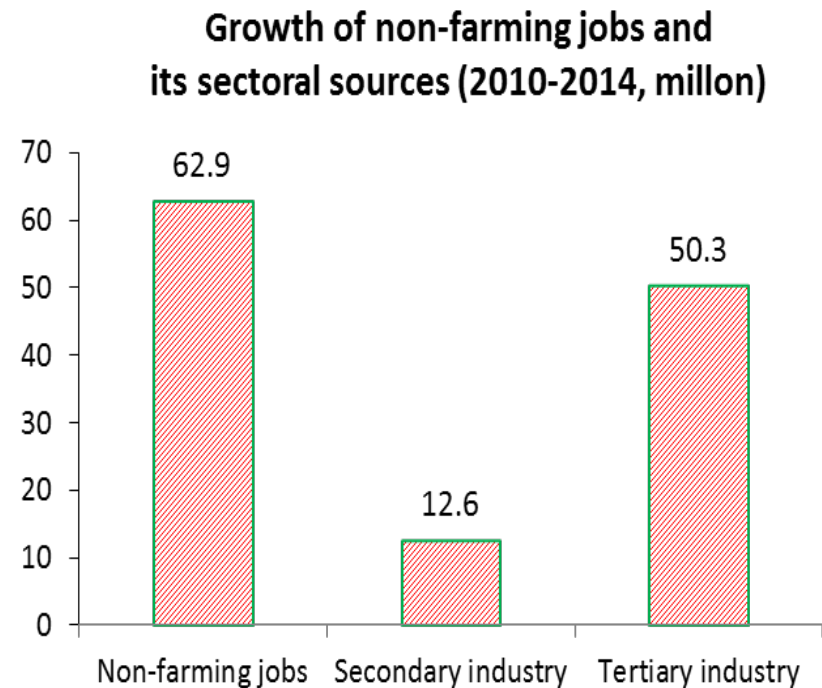


Incremental growth of total and non-farming employments (新增二三产就业与社会总就业量) (1978-2014, million)



Service sector is the main driving force

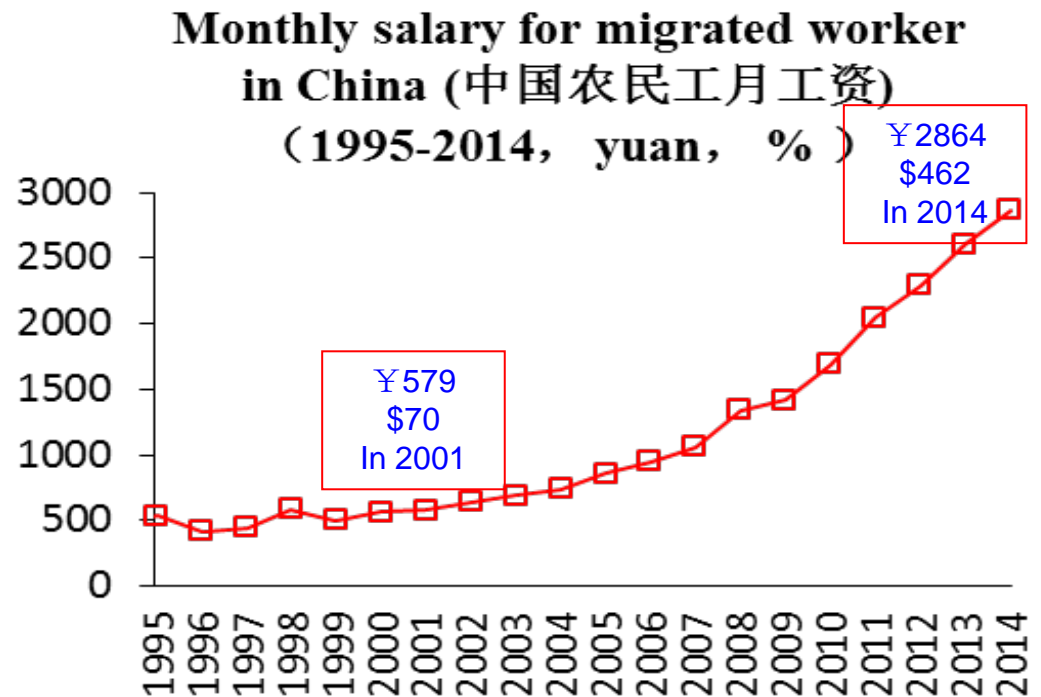
- The expansion of tertiary sector has been the main factor contributing to the total growth of non-farming jobs in recent years .
- Total non-farming jobs increased by 62.9 million In 2010-2014 and tertiary sector contributed 50.3 million, 80% of the total.



Growth of salary for migrated workers

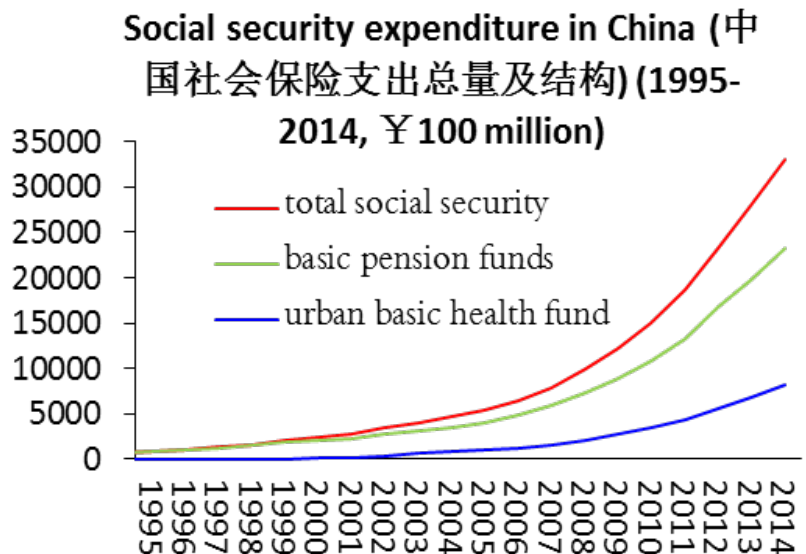
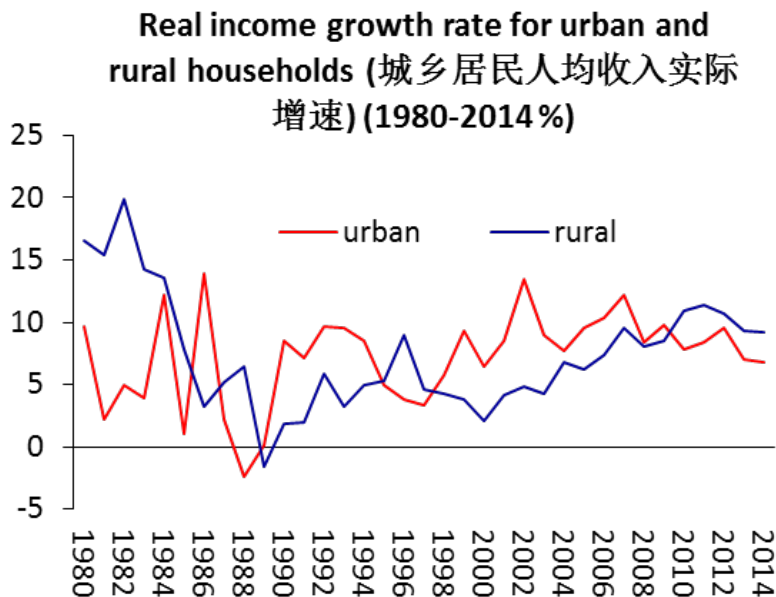
- The salary of China's migrated workers are still growing in recent years thereby supporting the growth of household income and consumption.

- Monthly salary for the migrated workers grew from ¥579 (or \$70 converted by the exchange rate) in 2001 to ¥2864 (\$462) in 2014. The salary increased by 4 and 5.5 times over the last 14 years or so.



Stable growth of household income

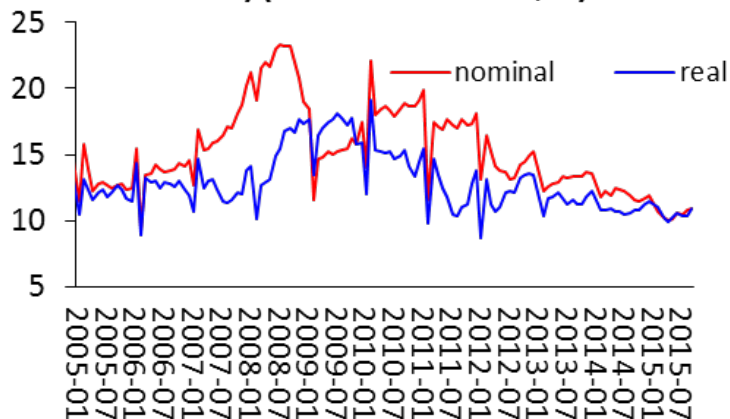
- Over 2012-2014, urban per capita income growth declined from 9.6% to 6.8% and rural per capita income from 10.7% to 9.2%, but they are higher than previous two downward adjustment periods of around 1989 and in the turn of the centuries.
- Total social security expenditure increased from ¥ 1.5 trillion in 2010 to ¥ 3.3 trillion in 2014 at the average annual growth rate of 21.6%. Its share of GDP increased from 3.67% to 5.19%.



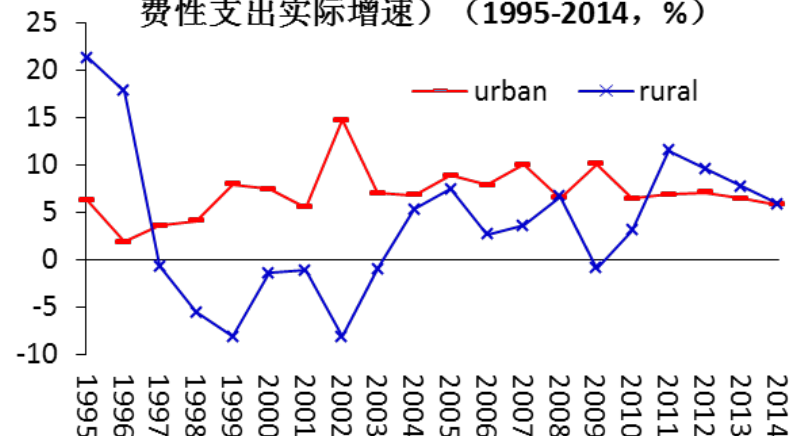
Stable growth of household consumption

- Growth rate of retail sales are still at 9%-10%. Considering the apid reduction of luxury consumption by officials as a result of anti-corruption campaign, growth of ordinary consumption should be higher.
- Growth rate of overall consumption for urban consumers are relatively stable, while that for rural consumers are much better than the turn of the centuries when the rural consumption fell drastically.

Nominal and real growth rate of retail sales in China (社会零售总额名义和实际增速) (2005M1-2015M9, %)



Growth rate of urban and rural per capita consumption expenditure (城乡居民人均消费性支出实际增速) (1995-2014, %)



The 13th Five Year Plan for China

- The Central Committee of the 18th Congress of CPC held its 5th plenary session in 26-29 Oct. 2015.
- Main agenda of the event is examination and approval of “Suggestions on the 13th five year plan”.
- The key word of the new plan will be “completing the goal of building of ‘Xiaokang’ ie., a moderately prosperous society in all respect (全面建成小康)”.



How to achieve “Xiaokang in all respects”: 5 core ideas for the 13th 5-Year plan!



Economic policy principles for 2016

- After the 5th session at the end of Oct., there were two important meetings at which the economic policy priority for 2016 has been defined:
 - 1) The meeting of the Leading Group on Finance and Economy of Central Committee of CPC on 10th Nov. 2015,
 - 2) The Central Economic Working Conference of Central Committee of CPC.



Focusing on structural reforms

- While aggregated demand should be expanded appropriately, priority of the economic policy should be given to supply-side structural reforms which focus on 5 areas:
 - Dealing with overcapacity using market clearing mechanism;
 - Reducing firms' costs through 5 combined measures
 - Reducing inventory in housing sector through pushing forward urbanization,
 - Enhancing flexibility and efficiency of supply system
 - Preventing and absorbing financial risks

Concluding remarks

- Chinese economy is still in the trough of its dual adjustments, but fortunately the situation of employment, income and consumption growth are relatively stable.
- China will continue to boost growth in 2016 but policy focus will be given to structural reform on supply side dealing with overcapacity, excessive inventory and leverage mainly using market mechanism.
- Successful completion of the dual adjustments may pave the way for China to enter into another booming period.